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Endless Energy Annual Report

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Dear Shareholders

The Year 1999 proved challenging for the oil industry with low commodity prices, a total lack of equity markets and negative sentiments towards the Petroleum Industry in general. Revenue for the year dropped 74 per-cent while general and administrative expenses increased by 14 per-cent. This fall in revenue is partly attributable to lower commodity prices, the drop in production of our Venus property and a decrease in property sales during the year 1999. Capital assets decreased by 5.5 per-cent to $2,165,966 or 43 cents per share.

Near year-end we made a conscious decision to concentrate our efforts on cleaning up the balance sheet and focusing on near term cash flow projects. Accordingly we have now consummated several property sales subsequent to year-end, eliminated our bank debt and are currently negotiating a new banking arrangement with another financial institution. We are now concentrating solely on the drilling of select wells within our three core areas and farming out all other non-core prospects from our inventory of lands.

The Company has three types of land holdings:

1) **Core Areas** These include Redwater, Campbell Namao and one other strategic area. At Campbell and Redwater we intend to drill at least two wells and rework four others. The other core area could have from one to eight additional workovers.

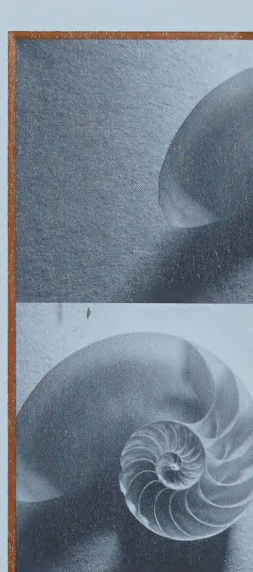
2) **Royalty Properties** Our royalty properties will be maintained unless special circumstances dictate that we maximize their value. These royalty properties have scheduled activities on them, which could benefit the Company. The most exciting of these is located southwest of Sable Island, Nova Scotia where the Operator has already completed a 3D seismic survey and plans to drill two wells by the end of 2001.

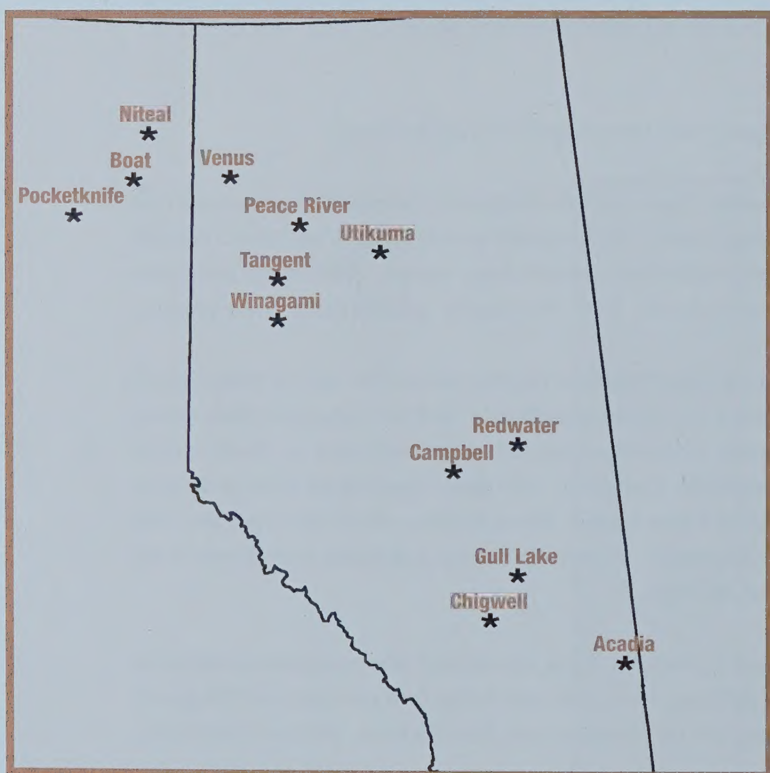
3) **Farmout Lands** We have developed five prospects, which are ready for drilling. These are Gull Lake, two prospects at Chigwell, and Venus, all in Alberta, and Fort Nelson, British Columbia.

Many additional projects are being matured into drillable prospects. We look forward with enthusiasm for our operations in the year 2000 and the return of broader financial support for the Oil Industry.

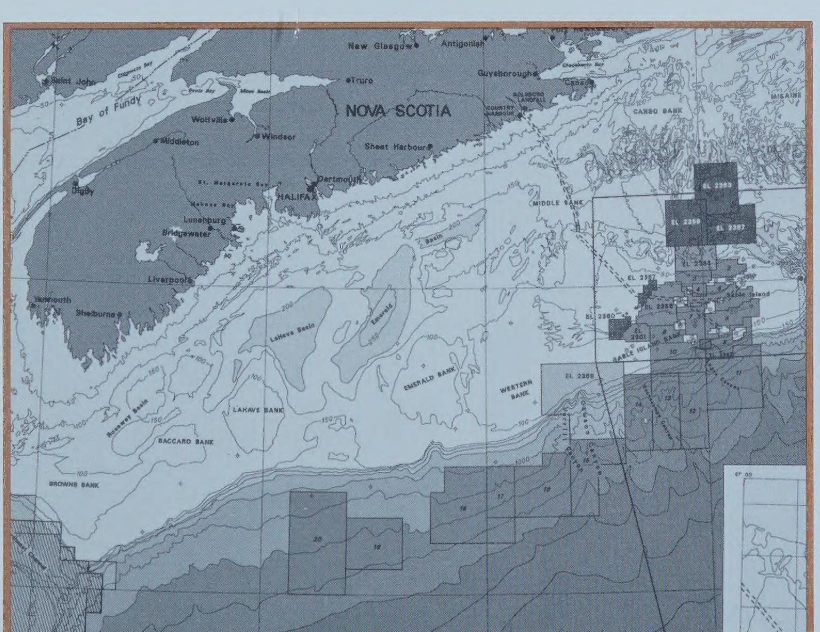
Respectfully submitted on behalf of the Board of Directors

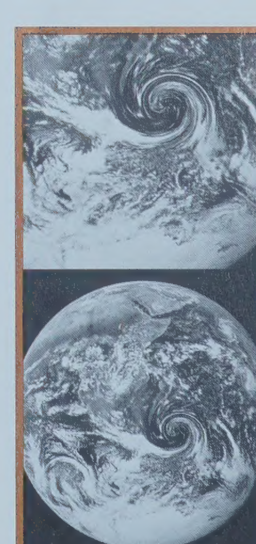
D. Jon Axford
May 10, 2000

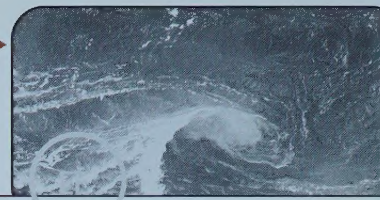



Niteal
Boat
Pocketknife
Venus
Peace River
Utikuma
Tangent
Winagami
Redwater
Campbell
Gull Lake
Chigwell
Acadia

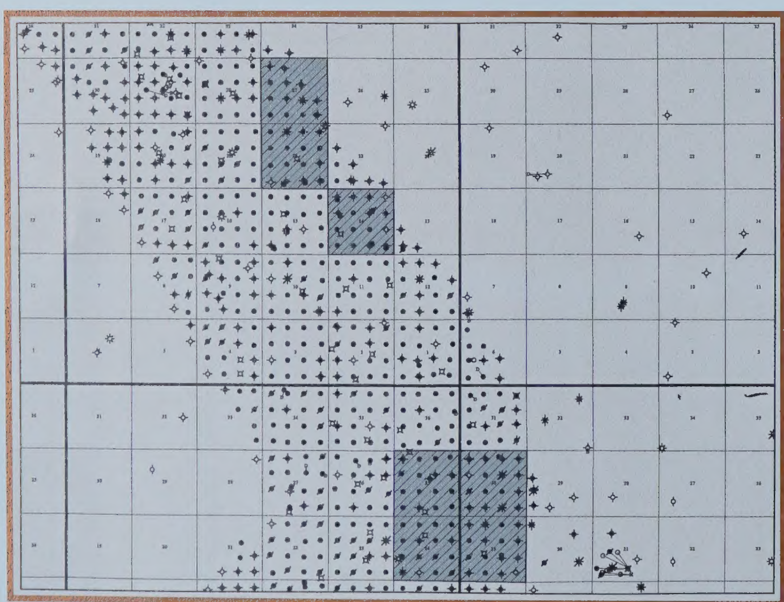
This area comprises 1.2 million acres and contains two different types of plays. The first play is the conventional Nova Scotia sands on-lapping salt domes. The Second play is turbidity fans, which are commonly found in the Gulf of Mexico in the United States. The Company has a 0.25% Gross Overriding Royalty over this 1.2 million acre prospect. The Operator has completed 3D seismic over these lands and plans to drill two wells on our blocks by the Summer of 2001.







The Redwater area comprises three different play concepts. One is the Cretaceous gas from three separate horizons. The second prospect is the upper Devonian where oil and gas targets are present. The third is the lower Devonian. Endless Energy is the operator and holds 40% to 50% working interests in seven sections. Redwater will be a core area for the Company in its development program during the upcoming year.



Location
Gas
Abandoned Oil
Abandoned Gas
Suspended
Dry & Abandoned
Suspended Gas
Directional —D
Horizontal —H

To the Shareholders of Endless Energy Corp.

We have audited the balance sheets of Endless Energy Corp. as at December 31, 1999 and 1998 and the statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

HUDSON & COMPANY
Chartered Accountants

Calgary, Alberta
February 23, 2000
(except Note 13 which is at May 10, 2000)

December 31	1999	1998
Assets		
Current		
Accounts receivable	$ 160,030	$ 196,743
Prepaid expenses	4,232	14,868
	164,262	211,611
Capital Assets (Note 3)	2,165,966	2,292,035
Other Asset (Note 4)	17,225	21,200
	$2,347,453	$2,524,846
Liabilities		
Current		
Bank indebtedness (Note 5)	$ 573,538	$ 554,429
Accounts payable (Note 7)	400,467	407,819
	974,005	962,248
Deferred Income Taxes	109,687	200,000
Site Restoration	4,000	2,000
	1,087,692	1,164,248
Shareholders' Equity		
Share Capital (Note 6)	1,119,260	1,105,748
Retained Earnings	140,501	254,850
	1,259,761	1,360,598
	$2,347,453	$2,524,846

Commitments (Note 8)

Approved On Behalf Of The Board:

"Donald W. Axford"______________________, Director

"Arne R. Nielsen"______________________, Director

Years ended December 31	1999	1998
Revenue	$ 275,650	$ 1,046,695
Expenses		
• Amortization and depletion	184,435	215,280
• General and administrative (Schedule)	259,186	226,577
• Interest and bank charges	43,023	51,609
• Production costs	2,073	1,585
• Site restoration	2,000	2,000
	490,717	497,051
Earnings (loss) before income taxes	(215,067)	549,644
Income Taxes (Note 10)		
• Income taxes	482	-
• Deferred (recovery)	(101,200)	200,000
	(100,718)	200,000
Net Earnings (Loss)	(114,349)	349,644
Retained Earnings (Deficit), beginning of year	254,850	(94,794)
Retained Earnings (Deficit), end of year	**$ 140,501**	**$ 254,850**
Earnings (Loss) Per Share (Note 9)		
• Basic	$ (0.022)	$ 0.078
• Fully diluted	-	0.072

Years ended December 31	1999	1998
Cash Flows From Operating Activities		
Net earnings (loss)	$ (114,349)	$ 349,644
Items not affecting cash		
• Amortization and depletion	184,435	215,280
• Deferred income taxes	(101,200)	200,000
• Site restoration	2,000	2,000
	(29,114)	766,924
Net change in non-cash working capital balances	39,995	187,658
Cash flows from operating activities	10,881	954,582
Cash Flows From Investing Activities		
Capital asset expenditures	(454,390)	(2,932,848)
Proceeds from disposal of capital assets	400,000	430,833
Purchase of other asset	-	(26,500)
Cash flows (used in) investing activities	(54,390)	(2,528,515)
Cash Flows From Financing Activities		
Issuance of share capital	24,400	585,748
Decrease in Cash	(19,109)	(988,185)
Cash (Deficiency), beginning of year	(554,429)	433,756
Cash (Deficiency), end of year	$ (573,538)	$ (554,429)
Cash Flow (Deficiency) Per Share (Note 9)		
• Basic	$ 0.002	$ 0.213
• Fully diluted	0.002	0.196

Years ended December 31, 1999 and 1998

1. General

The Company was incorporated under the Business Corporations Act (Alberta) on March 27, 1997.

2. Significant Accounting Policies

Joint Venture Accounting

Substantially all of the Company's petroleum and natural gas activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Capitalized Costs

The Company follows the full cost method of accounting whereby all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are initially capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on non-productive properties, costs of drilling both productive and non-productive wells, equipment costs and general and administrative expenses applicable to these activities.

Amortization and Depletion

Amortization and depletion of petroleum and natural gas properties and equipment is provided for using the unit-of-production method based on estimated proven petroleum and natural gas reserves as determined by independent engineers.

Other capital assets are recorded at cost and are amortized using the following annual rates and methods:

Computer equipment	30%	Declining balance

Site Restoration

The estimated costs of future removal and site restoration of petroleum and natural gas properties are provided for on the unit-of-production method. The annual charge is made to site restoration expense and actual site restoration expenses will be charged to the accumulated future site restoration account as incurred.

Ceiling Test

Each period the Company applies a ceiling test to capitalized costs to ensure that the net carrying value of petroleum and natural gas properties does not exceed the estimated value of future net revenues (calculated using current prices) from the production of proven reserves, less related general and administrative expenses, financing costs, estimated future site restoration costs and income taxes. Any permanent impairment in value is charged to operations.

2. Significant Accounting Policies (Continued)

Deferred Taxes

Deferred income taxes arise from timing differences in recognizing earnings and expenses for accounting purposes and income tax purposes. The income taxes will be payable in future years when taxable earnings exceed earnings for accounting purposes.

Use of Estimates

The amounts recorded for amortization and depletion of the petroleum and natural gas properties and the estimated costs of future renewal and site restoration are based on estimates of reserves and future costs. By their nature, these estimates, and those related to the future cash flows used to assess impairment, are subject to measurement uncertainty and the impact on the financial statements of future years could be material.

3. Capital Assets

			1999	1998
	Cost	Accumulated Amortization and Depletion	Net Book Value	
Petroleum and natural gas properties and equipment	$ 2,550,508	$ 388,272	$ 2,162,236	$ 2,287,758
Computer equipment	5,898	2,168	3,730	4,277
	$ 2,556,406	$ 390,440	$ 2,165,966	$ 2,292,035

4. Other Asset

The company paid $26,500 to purchase the name Endless Energy Corp. This cost is being amortized on a straight-line basis over five years.

5. Bank Indebtedness

Revolving demand production loan with a borrowing base up to $1,000,000, collateralized by a $10,000,000 fixed charge petroleum and natural gas debenture containing a first fixed charge on petroleum and natural gas properties, general security agreement with floating charge on petroleum and natural gas assets, bearing interest at prime + 0.50% per annum. (See Note 13)

6. Share Capital

Authorized
- Unlimited number of common voting shares
- Unlimited number of first preferred shares issuable in series

Issued common shares

	Number of Shares	Amount
Balance at December 31, 1997	4,100,000	$ 520,000
Issuance of common shares	893,824	616,740
Issuance costs	-	(30,992)
Balance at December 31, 1998	4,993,824	1,105,748
Issuance of flow through common shares	48,000	24,400
Income tax effect on flow through common shares	-	(10,888)
Balance at December 31, 1999	5,041,824	$1,119,260

Included in shares issued is 3,000,000 common shares which were held in escrow, of which, 1,000,000 shares were released from escrow during 1999. No further releases shall occur without the written consent of the Executive Director of the Alberta Securities Commission.

The Company has adopted a common share option plan for its directors, officers, and key employees and has granted options to purchase 400,000 common shares at $0.20 per share. These options expire on May 21, 2002. The common share option plan is subject to regulatory approval.

7. Related Party Transactions

During the year the Company paid $14,529 (1998-$68,497) to a law firm in which an officer of the Company is a partner. Of these payments $14,529 (1998 - $37,505) has been expensed and $nil (1998-$30,992) has been netted against share capital. At December 31, 1999 $8,604 was owing to the law firm (1998 - $6,514).

8. Commitments

The minimum rentals payable under an office rent lease, exclusive of certain operating costs for which the company is responsible, are as follows:

- 2000 - $ 6,671
- 2001 - $ 822

9. Earnings And Cash Flow Per Share

Basic earnings (loss) per common share and cash flow (deficiency) per common share have been calculated based upon the weighted average number of shares outstanding during the year of 4,995,009 (1998 - 4,479,569).

Fully diluted earnings per common share and cash flow per common share for 1998 have been calculated based upon the weighted average number of shares outstanding of 4,879,569. Fully diluted earnings per share for 1999 were not anti-dilutive.

10. Income Taxes

The effective income tax rate based on accounting earnings (loss) differs from combined Federal and Provincial income tax rates. The main differences are summarized as follows:

	1999	1998
Earnings (loss) before income taxes	$ (215,067)	$ 549,644
Corporate income tax rate	44.6%	44.6%
Computed income tax (recovery)	(95,920)	245.141
Increase (decrease) resulting from:		
• Non-taxable capital gain	-	(20,771)
• Share issuance costs deduction	(7,440)	(7,440)
• Other	2,642	(16,930)
	$ (100,718)	$ 200,000

At December 31, 1999 the Company had the following estimated balances available to apply against future years' taxable income:

Cumulative eligible capital	$ 18,000
Undepreciated capital cost	$ 319,000
Canadian oil and gas property expenses	$ 670,000
Canadian development expenses	$ 46,000
Canadian exploration expenses	$ 775,000

The Company has non-capital income tax loss carry forwards of approximately $112,000 available to apply against future years' taxable income. The loss carry forwards expire as follows:

2004	$ 49,000
2005	$ 17,000
2006	$ 46,000

11. Financial Instruments

Credit Risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience difficulty and be unable to fulfill their obligations. The Company is exposed to financial risk that arises from the credit quality of the entities to which it provides services.

Its customers expose the Company to credit risk. However, because of the large number of customers, credit risk concentration is minimized.

Interest Rate Risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to financial risk that arises form the interest rate differentials between the market interest rate and the rates used on their financial instruments.

Bank Indebtedness

The operating line of credit bears a variable interest rate of prime + 0.5%. The effective interest rate realized during the year was 7.6% (1998-7.7%). The average interest rate was 7.0% (1998-6.6%).

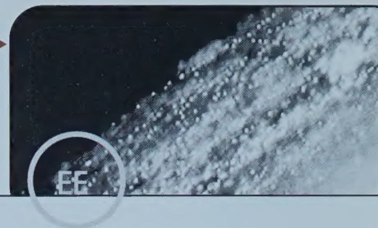
12. Uncertainty Due To The Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers or other third parties, have been fully resolved.

13. Subsequent Event

Subsequent to year end the Company was advised that their revolving demand production loan would not be renewed. The Company sold petroleum and natural gas properties for proceeds of $665,000 and these proceeds were used to repay the bank indebtedness and to assist with day to day operations, development work and acquisitions. The Company is presently changing its banking arrangements and is negotiating a new credit facility with a financial institution.

Years Ended December 31	1999	1998
Business taxes and licences	$ -	$ 10,000
Consulting	17,304	11,255
Insurance	5,551	5,170
Transfer agent	7,781	15,038
Engineering fees	21,149	12,978
Management fees	18,744	21,873
Office	31,429	19,152
Professional fees	36,131	57,895
Rent	27,200	4,640
Salaries	87,388	56,010
Telephone	2,234	7,283
Travel	4,275	5,283
	$ 259,186	$ 226,577



Directors

Donald W. Axford*
D. Jon Axford*
Byron J. Seaman*
Arne R. Nielsen
Chairman of the Board

Officers

D. Jon Axford
President
Larry S. Martin
Chief Financial Officer
William H. Smith
Corporate Secretary

* member of the Audit Committee

Auditors
Hudson & Company
Chartered Accountants
Calgary, Alberta

Bankers
Canadian Imperial Bank of Commerce
Calgary, Alberta

Registrar & Transfer Agent
Montreal Trust Company of Canada
Calgary, Alberta

Head Office
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endlessenergy.ab.ca

For Further Information contact
D. Jon Axford
President and Director
Email: jon@endlessenergy.ab.ca

Annual General Meeting
To Be Held 10 am, June 27, 2000
Cardium Room, Petroleum Club

Common shares listed for trading on the Canadian Venture Exchange under the trading symbol "EEC".

Corporation

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